

IRS News Release

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IRS Provides Safe Harbor to Heavy Equipment Dealers For Use of Replacement Cost for Parts

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WASHINGTON — The Internal Revenue Service today issued guidance that provides heavy equipment dealers with a safe harbor that allows them to approximate the cost of the equipment parts inventory using the replacement cost method of accounting.

The guidance was developed as part of the Industry Issue Resolution (IIR) program. The IIR program, launched by the IRS in 2001, tackles issues submitted by taxpayers, associations and other groups representing businesses. The objective is to work cooperatively to resolve frequently disputed or burdensome tax issues.

The IRS issued guidance on the safe harbor for heavy equipment dealers in Revenue Procedure 2006-14, which will be published in IRB 2006-4, dated Jan. 23, 2006.

The safe harbor applies to heavy equipment dealers that are engaged in the trade of selling heavy equipment parts at retail and are authorized under an agreement with one or more equipment manufacturers or distributors to sell, or sell and lease new heavy equipment. Under the replacement cost method, the dealer determines the costs of the heavy equipment parts in its inventory using a standard price list and must satisfy the book conformity requirement.

Dealers currently using the replacement cost method described in the revenue procedure may continue to use it without applying for a change in their accounting method. A dealer wishing to change to the replacement cost method may do so for a tax year ending on or after April 30, 2005, by filing Form 3115, "Application for Change in Accounting Method." This is done by following the automatic change in accounting method provisions of Rev. Proc. 2002-9, 2002-3 IRB 327, with modifications.

The Revenue Procedure is generally effective for tax years ending on or after April 30, 2005.